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TREASURY FOR THE OFFICE OF INTERNATIONAL TAX COUNSEL
(BKISSEL)

E.O. 12958: DECL: 07/18/2013
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PTER](#) [SP](#)
SUBJECT: AMBASSADOR MEETS WITH SECOND VICE PRESIDENT AND
FINANCE MINISTER

Classified By: Deputy Chief of Mission, Hugo Llorens, 1.5 (b) and (d)

11. (C) Summary: Ambassador met with Second Vice President and Finance Minister Pedro Solbes on 7/17/08. The minister acknowledged the serious economic difficulties that Spain was facing. He said that he would review the issue of granting the same tax benefits to religious denominations such as the Mormons as other groups receive. Solbes was also willing to review the 1990 double taxation treaty between the U.S. and Spain again. He was fully on board with respect to maintaining tough economic sanctions against Iran. End Summary

PARTICIPANTS

12. (U) Minister Solbes was accompanied by Senior Adviser Fernando Valero San Paulo. Ambassador was accompanied by EconOff.

GENERAL ECONOMIC CONDITIONS

13. (C) Second Vice President and Finance Minister Pedro Solbes said that Spain was facing a "perfect storm" of adverse economic circumstances. He said that in the medium-to long term it was "easy" to do what Spain needs to do (he did not specify what), but that in the short-term, things were difficult. He said that he expected the next couple of quarters to be tough. The Ambassador noted that with unemployment rising, Spain may have greater difficulty in integrating immigrants. Solbes responded that it depended on where the immigrants were from. Latin Americans had no cultural problems. Romanians (the second largest immigrant group in Spain) might return to Romania where the economy is growing quickly or go to other EU countries. Solbes acknowledged, however, that North Africans would likely stay, and should there be large numbers of unemployed youths in urban areas, that could pose a problem. Solbes emphasized that high oil prices were a particular burden on Spain because it was so dependent on imported petroleum products (more so than most other EU countries). In the long-term, that had to change. He said his immediate problems would be much easier were oil prices to drop to USD 100 a barrel!

TAXATION OF RELIGIOUS DENOMINATIONS

14. (C) In Spain, religious groups such as the Mormons, Jehovah's Witnesses, and Buddhists are recognized as religions with "well-known deeply-rooted" beliefs. However, they do not receive the same benefits and privileges as other religions that are also recognized as such. The Ambassador

asked whether it would be possible to provide the same status. Solbes said that he was open to reviewing the issue, although he said that this year was not the best year to change something that might have negative revenue implications, marginal as he acknowledged they would probably be. The Finance Minister added that Spain was changing rapidly with respect to religious matters. Ten years ago, he said, it would have been "out of the question" to consider this topic.

U.S.-SPAIN DOUBLE TAXATION TREATY

15. (C) The Ambassador asked whether the GOS would consider amending 1990 double taxation treaty between the U.S. and Spain along the lines suggested by the American Chamber of Commerce. Solbes said that his staff had had conversations with General Electric and General Motors, and that they had not indicated that this was such an urgent priority. However, he said he was willing to review the matter again.

IRAN

16. (C) The Ambassador emphasized that the U.S. was seeking a diplomatic solution to the Iranian nuclear issue as the decision to send U/S. Burns to Geneva demonstrated. In order for diplomacy to succeed, however, Iran needed to be presented with a stark choice with respect to its economic future. Solbes agreed and noted that in Spain there was no disagreement with respect to the fundamental "justice" of the

American stance on Iran.

COMMENT

17. (C) The Second Vice President seemed surprisingly relaxed for somebody in the eye of the Spanish economic storm. He was also somewhat philosophical and mentioned with the Ambassador that at 66 "he was getting on in years and was a bit tired." Embassy will be following up with Valero with respect to the religious taxation and double taxation matters.

Aguirre